

Southeast Macomb Sanitary District

Financial Report
with Supplemental Information
June 30, 2008

Southeast Macomb Sanitary District

Contents

Report Letter	I
Management's Discussion and Analysis	2-4
Basic Financial Statements	
Statement of Net Assets	5
Statement of Revenue, Expenses, and Changes in Net Assets	6
Statement of Cash Flows	7
Notes to Financial Statements	8-13
Other Supplemental Information	14
Schedule of Operating Expenses	15

Independent Auditor's Report

To the Board of Directors
Southeast Macomb Sanitary District

We have audited the accompanying basic financial statements of the Southeast Macomb Sanitary District (the "District") as of June 30, 2008 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Southeast Macomb Sanitary District at June 30, 2008 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and schedule of operating expenses (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the other supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the Southeast Macomb Sanitary District's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

December 3, 2008

Southeast Macomb Sanitary District

Management's Discussion and Analysis

Using this Annual Report

The Southeast Macomb Sanitary District (the "District") is a joint venture of three cities located in Southeast Macomb County: Eastpointe, Roseville, and St. Clair Shores. The primary role of the District is to operate a sewage transportation system for these communities. This annual report consists of a series of financial statements. The statement of net assets and the statement of revenue, expenses, and changes in net assets provide information about the financial activities of the District. These are followed by the statement of cash flows, which presents detailed information about the changes in the District's cash position during the year.

Financial Overview

In analyzing the District's financial position, it is important to recognize the mission of the District. From a financial perspective, the District's core objective is to manage the long-term costs of sewage disposal for its three member cities. In essence, the District acts as a conduit for its three members. Over time, the amounts to be charged to its members will be equal to the District's costs of providing sewage transportation and treatment and maintaining reserves for upgrading the efficiency of the system's infrastructure.

Condensed Financial Information

The following tables present condensed information about the District's financial position compared to the prior year. Overall, net assets increased by approximately \$751,000. This was mainly due to the combined effect of liabilities decreasing by approximately \$250,000 and assets increasing by approximately \$500,000 from the prior year. The increase in assets was mainly due to the District continuing to have positive operating income and being able to retain more of its cash reserves by spending less on capital needs during the current year. While remaining positive, the net income in the current year did decrease from the prior year by approximately 31 percent. This decrease in net income is mainly due to the decrease in operating expenses being less than 1 percent, while revenue treatment fees decreased at a rate of 2 percent. In addition, nonoperating revenue decreased 20 percent due to having lower investment earnings during the year ended June 30, 2008.

Southeast Macomb Sanitary District

Management's Discussion and Analysis (Continued)

	June 30		Change	
	2008	2007	Amount	Percent
Assets				
Current assets	\$ 17,984,175	\$ 17,332,866	\$ 651,309	4
Capital assets	5,801,768	5,952,065	(150,297)	-3
Total assets	23,785,943	23,284,931	501,012	2
Liabilities				
Current liabilities	2,649,006	2,899,472	(250,466)	-9
Accumulated employee benefits	65,873	65,873	-	-
Total liabilities	2,714,879	2,965,345	(250,466)	-9
Net Assets				
Invested in capital assets - Net of debt	5,801,768	5,952,065	(150,297)	-3
Unrestricted	15,269,296	14,367,521	901,775	6
Total net assets	<u>\$ 21,071,064</u>	<u>\$ 20,319,586</u>	<u>\$ 751,478</u>	4
	Year Ended June 30		Change	
	2008	2007	Amount	Percent
Operating Revenue - Treatment fees	\$ 13,772,166	\$ 14,031,756	\$ (259,590)	-2
Operating Expenses				
Cost of sewage disposal	12,218,255	12,363,256	(145,001)	-1
Operation and maintenance	1,034,024	915,921	118,103	12
Administrative and other	200,805	195,088	5,717	3
Total operating expenses	13,453,084	13,474,265	(21,181)	-0.10
Nonoperating Revenue	432,396	543,217	(110,821)	-20
Net Income	<u>\$ 751,478</u>	<u>\$ 1,100,708</u>	<u>\$ (349,230)</u>	-31

Southeast Macomb Sanitary District

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

The District plans to increase rates only to the extent necessary to cover anticipated rate increases passed on by Wayne County.

Thus, operating costs will be largely dependent on the volume of sewage flow which is projected to remain fairly consistent with the prior year and with overall projected rate increases consistent with the anticipated Wayne County increase of approximately 5 percent for the next fiscal year.

Current unrestricted net asset balance is being analyzed to determine capital needs going forward for the District to ensure the level is a proper reserve amount.

Contacting the District's Management

This financial report is intended to provide our member cities with a general overview of the District's finances and to show the District's accountability for the money it receives from the member cities. If you have questions about this report or need additional information, we welcome you to contact the District's offices.

Southeast Macomb Sanitary District

Statement of Net Assets June 30, 2008

Assets

Cash and cash equivalents (Note 3)	\$ 1,547,720
Investments (Note 3)	14,720,787
Accounts receivable	1,685,974
Prepaid insurance	29,694
Capital assets (Note 4):	
Subject to depreciation	5,722,525
Not subject to depreciation	<u>79,243</u>
Total assets	23,785,943

Liabilities

Accounts payable	2,629,577
Accrued payroll and related taxes	19,429
Accumulated employee benefits	<u>65,873</u>
Total liabilities	<u>2,714,879</u>

Net Assets

Invested in capital assets	5,801,768
Unrestricted	<u>15,269,296</u>
Total net assets	<u><u>\$ 21,071,064</u></u>

Southeast Macomb Sanitary District

Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2008

Operating Revenue - Treatment fees	\$ 13,772,166
Operating Expenses	
Cost of sewage disposal	12,218,255
System maintenance and operation	1,034,024
General and administrative	28,376
Depreciation	<u>172,429</u>
Total operating expenses	<u>13,453,084</u>
Operating Income	319,082
Nonoperating Revenue (Expense)	
Interest income	611,822
Unrealized loss in fair value	<u>(179,426)</u>
Total nonoperating revenue	<u>432,396</u>
Net Income	751,478
Net Assets - Beginning of year	<u>20,319,586</u>
Net Assets - End of year	<u><u>\$ 21,071,064</u></u>

Southeast Macomb Sanitary District

Statement of Cash Flows Year Ended June 30, 2008

Cash Flows from Operating Activities

Cash received from customers	\$ 14,921,137
Cash payments to suppliers for goods and services	(12,485,441)
Cash payments to employees for services	<u>(1,040,243)</u>

Net cash provided by operating activities 1,395,453

Cash Flows from Capital and Related Financing Activities -

Purchase of fixed assets	22,132
--------------------------	--------

Cash Flows from Investing Activities

Interest received on investments	611,822
Net sale and maturities of investments	<u>(2,657,368)</u>

Net cash used in investing activities (2,045,546)

Net Decrease in Cash and Cash Equivalents (627,961)

Cash and Cash Equivalents - July 1, 2007 2,175,681

Cash and Cash Equivalents - June 30, 2008 \$ 1,547,720

Reconciliation of Operating Income to Net Cash from Operating Activities

Operating income	\$ 319,082
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation expense	172,429
Changes in assets and liabilities:	
Decrease in accounts receivable	1,148,972
Decrease in prepaid expenses	5,436
Decrease in accounts payable	(267,188)
Increase in accrued liabilities	<u>16,722</u>

Net cash provided by operating activities \$ 1,395,453

Noncash investing, capital, and financing activities - During the year ended June 30, 2008, the District experienced an unrealized loss on its investments fair market value of approximately \$180,000.

Southeast Macomb Sanitary District

Notes to Financial Statements June 30, 2008

Note 1 - Nature of Business and Significant Accounting Policies

The Southeast Macomb Sanitary District (the "District") provides sewage disposal services to three participating municipalities in Macomb County, Michigan.

The District is governed by a three-member board appointed by the participating communities.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America applicable to an Enterprise Fund of a governmental unit. Accordingly, the accrual basis of accounting is followed by the District. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements.

Fixed Assets - Fixed assets are recorded at cost and are shown net of accumulated depreciation. Depreciation is computed using the straight-line method.

Cash Equivalents - For the purpose of the statement of cash flows, the District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents

Investments - Investments are recorded at fair value, based on quoted market prices.

Other accounting policies are disclosed in other notes to the financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Noncompliance with Legal or Contractual Provisions - The District has not currently adopted a formal policy to make and accept electronic fund transfers (ACH payments). A formal policy is required under Public Act 738.

Note 3 - Cash and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Southeast Macomb Sanitary District

Notes to Financial Statements June 30, 2008

Note 3 - Cash and Investments (Continued)

In addition to the District investing in accordance with Public Act 20 of 1943, the District also states in its investment policy that it will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 60 percent of the District's investment portfolio will be invested in a single type or with a single financial institution.

The District has designated two banks for the deposit of its funds. The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District has not specifically addressed a deposit policy for custodial credit risk. At year end, the District had \$1,251,918 of bank deposits (checking and savings accounts) that was uninsured and uncollateralized. The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has not specifically addressed a policy for custodial credit risk of investments. At year end, the following investment securities were uninsured and unregistered, with securities held by the counter party or by its trust agency not in the District's name:

Type of Investment	Carrying Value	How Held
U.S. government and agency securities	\$ 14,720,787	Counterparty

Southeast Macomb Sanitary District

Notes to Financial Statements June 30, 2008

Note 3 - Cash and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The District's policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average weighted maturity for investments was as follows:

Investment	Fair Value	Weighted Average Maturity (Years)
U.S. Government and Agency Securities		
Federal Home Loan Bank	\$ 3,959,297	11.11
Federal Home Loan Mortgage Corp	1,940,400	19.56
Federal National Mortgage Association	8,821,090	8.63

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy is consistent with the state law limits. As of year end, the credit quality ratings of debt (other than the U.S. government) securities are as follows:

Investment	Fair Value	Rating	Rating Organization
U.S. federal agencies	\$ 14,720,787	AAA	Moody

Concentration of Credit Risk - The District states in its investment policy that it will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 60 percent of the District's investment portfolio will be invested in a single type or with a single financial institution. At year end, the District had the following investment concentrations:

U.S. Government and Agency Securities

Federal Home Loan Bank	27%
Federal Home Loan Mortgage Corp	13%
Federal National Mortgage Association	60%

Southeast Macomb Sanitary District

Notes to Financial Statements June 30, 2008

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	2007	Additions	Disposals/ Adjustments	2008
Capital assets not being depreciated:				
Land	\$ 79,243	\$ -	\$ -	\$ 79,243
Capital assets being depreciated:				
Pump station	2,926,919	-	-	2,926,919
Interceptor	699,921	-	-	699,921
Sewer improvements	3,622,070	-	-	3,622,070
Nine Mile plant	37,887	-	-	37,887
Improvements	200,636	10,000	-	210,636
Paving and sewer	17,661	-	-	17,661
Trucks and equipment	41,866	15,797	(13,822)	43,841
Furniture and equipment	52,039	-	2,605	54,644
Subtotal	7,598,999	25,797	(11,217)	7,613,579
Less accumulated depreciation for:				
Pump station	(890,600)	(60,400)	-	(951,000)
Interceptor	(322,827)	(25,117)	-	(347,944)
Sewer improvements	(214,882)	(72,441)	-	(287,323)
Nine Mile plant	(36,993)	(224)	-	(37,217)
Improvements	(175,214)	(4,429)	-	(179,643)
Paving and sewer	(17,661)	-	-	(17,661)
Trucks and equipment	(21,944)	(8,329)	10,157	(20,116)
Furniture and equipment	(46,056)	(1,489)	(2,605)	(50,150)
Subtotal	(1,726,177)	(172,429)	7,552	(1,891,054)
Net capital assets being depreciated	5,872,822	(146,632)	(3,665)	5,722,525
Total capital assets - Net of depreciation	\$ 5,952,065	\$ (146,632)	\$ (3,665)	\$ 5,801,768

Commitments - The Southeast Macomb Sanitary District has an active software upgrade commitment as of June 30, 2008 for an amount not to exceed \$150,300.

Southeast Macomb Sanitary District

Notes to Financial Statements June 30, 2008

Note 5 - Defined Benefit Pension Plan

Plan Description - The District has an agent defined benefit pension plan that is administered by an independent insurance company and covers substantially all employees. The plan provides retirement and death benefits to plan members and their beneficiaries.

Funding Policy - The funding policy provides for periodic employer contributions of actuarially determined amounts that are intended to accumulate sufficient assets to pay benefits when due.

Annual Pension Cost - For the year ended June 30, 2008, the District's annual pension cost of \$138,825 for the plan was equal to the District's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2006 using the individual aggregate actuarial funding method. The aggregate actuarial cost method does not identify or separately amortize the unfunded actuarial liability. The significant actuarial assumptions used include (a) a 6 percent investment rate of return and (b) projected salary increases of 6 percent per year. The actuarial value of assets was determined using fair market value.

Three-year trend information is as follows:

	Fiscal Year Ended June 30		
	2006	2007	2008
Annual pension cost (APC)	\$ 98,363	\$ 137,690	\$ 138,825
Percentage of APC contributed	100	100	100
Net pension obligation	\$ -	\$ -	\$ -

Note 6 - Postemployment Benefits

The District provides healthcare benefits to all full-time employees upon retirement. Currently, eight retirees are receiving benefits. The District includes retirees and their dependents in its insured healthcare plan with no contribution required by the participants. The total expense for postemployment healthcare benefits, which is recognized as insurance premiums become due, amounted to \$49,350 for the year ended June 30, 2008.

Southeast Macomb Sanitary District

Notes to Financial Statements June 30, 2008

Note 6 - Postemployment Benefits (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year beginning July 1, 2009.

Note 7 - Risk Management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers’ compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for medical and life insurance claims and participates in the Michigan Municipal League risk pool for claims relating to property loss, torts, errors and omissions, and employee injuries (workers’ compensation). Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase excess commercial insurance coverage and to pay member claims in excess of deductible amounts.

Other Supplemental Information

Southeast Macomb Sanitary District

Schedule of Operating Expenses Year Ended June 30, 2008

System Maintenance and Operation Expenses

Salaries and wages	\$ 457,985
Pension expense	144,925
Payroll taxes	31,107
Hospitalization	178,416
General insurance	54,845
Life insurance	1,087
Dental and optical insurance	63
Repairs and replacement	87,479
Telephone	4,766
Utilities	9,702
Office supplies and expense	4,309
Fuel and oil	7,234
Engineering	49,107
Miscellaneous expenses	<u>2,999</u>

Total system maintenance and operation expenses **\$ 1,034,024**

General and Administrative Expenses

Board meetings	\$ 2,040
Professional fees	21,953
Miscellaneous expense	<u>4,383</u>

Total general and administrative expenses **\$ 28,376**

Southeast Macomb Sanitary District

Report to the Board of Directors

June 30, 2008

To the Board of Directors
Southeast Macomb Sanitary District

We have recently completed our audit of the basic financial statements of the Southeast Macomb Sanitary District (the "District") for the year ended June 30, 2008. In addition to our audit report, we are providing the following letter of increased audit communications, required audit communication, recommendations, and informational comments which impact the District.

	<u>Page</u>
Report on Internal Control	I-3
Results of the Audit	4-6
Other Comments and Recommendations	7-8

We are grateful for the opportunity to be of service to the Southeast Macomb Sanitary District. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

December 3, 2008

Report on Internal Control

December 3, 2008

To the Board of Directors
Southeast Macomb Sanitary District

Dear Board Members:

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the District's financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards are to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In addition, we would like to commend the Southeast Macomb Sanitary District (the "District") and its staff for the commitment put forth during the past few years to ensure that the District received an unqualified opinion. Due to the size of the organization, one position is responsible for the majority of the operation's accounting. While the Board does a good job in its fiduciary oversight function, lack of segregation of duties is inherent with one individual being responsible for the majority of the accounting functions. While the financial statement records were completed, this structure did lead to internal control deficiencies noted below during the fiscal year ended June 30, 2008.

In planning and performing our audit of the financial statements of the District as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we identified certain deficiencies in internal control that we consider to be a material weakness, as defined above.

Account Reconciliations and Journal Entry Posting

As the board of directors is aware, the District maintains the books on a cash-type basis during the course of the year. The District has continued to assume increasing responsibilities for the calculation and posting of year-end accrual entries by providing the District's staff with quarterly accounting assistance from an outside source. The District has historically enlisted the Plante & Moran auditors to assist in determining the remaining accrual adjustments to the accounting records at the end of the year. While the quarterly assistance has allowed the Plante & Moran auditors to have fewer adjustments at year end and has served to help the District to comply with the new auditing standards, the year-end reconciliation process did result in one significant cash to accrual adjustment to accounts receivable required to be posted due to auditing procedures performed. The board has determined that the processes implemented by the District result in the most cost-effective and value-added method of complying with the requirements for full accrual statements.

We noted the following significant deficiency that in our judgment is not considered to be a material weaknesses:

Segregation of Duties

Strong internal controls attempt to segregate the three duties associated with custody, authorization, and recordkeeping for any transaction. Incompatible functions place a person in the position to both perpetrate and conceal errors or fraud in the normal course of his or her duties. Due to its limited staff size, the District does not have an adequate segregation of accounting duties due to one individual performing the three duties noted above. The District's board has worked to mitigate the risk noted above by reviewing all disbursements before being remitted, initiating wire transfers, and reviewing overall cash balances and bank statements. However, in order to further strengthen the controls, we suggest that a timely secondary review of the bank reconciliations be done monthly, including evidence through a sign-off and date of this procedure by another member of the District's management or board. We would also suggest that journal entries posted monthly be reviewed by another member of the District's management or board and any change to pay rates or employee status be reviewed by another member of the District's management or board each payroll period. These enhanced procedures could help to identify errors in a timely manner and improve the overall controls at the District.

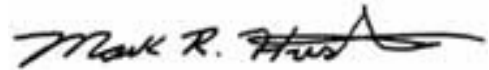
To the Board of Directors
Southeast Macomb Sanitary District

December 3, 2008

This communication is intended solely for the information and use of management, the board, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "Mark R. Hurst", with a stylized flourish at the end.

Mark R. Hurst

A handwritten signature in black ink, appearing to read "Kathryn J. Kercorian", written in a cursive style.

Kathryn J. Kercorian

Results of the Audit

December 3, 2008

To the Board of Directors
Southeast Macomb Sanitary District

We have audited the financial statements of the Southeast Macomb Sanitary District (the "District") for the year ended June 30, 2008 and have issued our report thereon dated December 3, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 13, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the District. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of the District's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the District's compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated December 3, 2008, regarding our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

We also are obligated to communicate certain matters related to our audit to those responsible for the governance of the District including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on October 13, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008.

We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We noted no significant sensitive estimates affecting the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatement was detected as a result of audit procedures and was corrected by management related to the reconciliation from cash to accrual of the account receivable balance. The adjustment included an adjustment to the water and sewer receivable account and the water and sewer treatment fee revenue.

December 3, 2008

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated December 3, 2008.

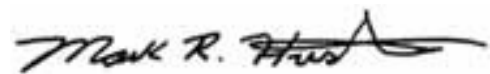
Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

This information is intended solely for the use of the board of directors and management of the Southeast Macomb Sanitary District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC



Mark R. Hurst



Kathryn J. Kercorian

Other Comments and Recommendations

Southeast Macomb Sanitary District

Other Comments and Recommendations

Reminder - Change in Investment Act

- Public Act 213 of 2007, adopted at the end of 2007, requires local governments to perform their investment reporting quarterly to the governing body. The investment of surplus monies by Michigan local governments is controlled by Public Act 20 of 1943. The Act previously required investment reporting annually. It is suggested that the required quarterly reports list investments by institution along with maturity dates and interest rates

Other Legislative Items

As part of Michigan's new "Planning Enabling Act," many local governments will now be required to prepare an annual "capital improvements program." This new requirement is effective September 1, 2008. This requirement will not apply to special purpose entities such as the District. However, Plante & Moran strongly encourages the development of a capital plan for all entities. We would strongly encourage the District to include all capital asset needs - vehicles, machinery and equipment, office furnishings, etc. - that it foresees over the next five years in its plan. This need can then be compared the District's current net asset level to determine if the unrestricted net asset balance is sufficient to fund the District's future capital needs. This can then be incorporated in an overall rate plan for the member communities.

- Multiple bills are pending in Lansing that would make changes to investment laws governing Michigan communities. Changes have been proposed to add different types of investments to what is commonly referred to as "Public Act 20" which governs the investment of surplus operating monies. Changes are also being proposed to the laws governing the investment of retirement monies.

Retiree Healthcare Benefits

- Please keep in mind that, beginning on July 1 2009, new accounting rules will require an actuarial valuation to determine the annual contribution that would be necessary to fund retiree healthcare costs over a 30-year period.

While the accounting rules do not (cannot) require you to make any annual contributions to pre-fund this obligation, the liability size will cause the board of directors to have to debate the merits of funding some or all of the recommended contribution.

Annual Reminder - Reporting Requirements

- As a reminder, the District will need to complete a municipal finance qualifying statement online with the State of Michigan by December 31, 2008. The District should have been given a password to use in this process. Please call us if you would like assistance in filling it out.